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SUBJECT: IVOIRIAN COTTON SECTOR HANGING BY A THREAD

REF: ABIDJAN 716

¶1. Summary. Poor management and world market factors, along with the seven-year military-political crisis, have resulted in a 63 percent reduction in Ivoirian cotton production since the late 1990s. Cotton is grown almost entirely in the Forces Nouvelles (FN)-controlled north, but the sector is still characterized by substantial government intervention, despite privatization of much of the state cotton company several years ago. There are some signs of improvement in areas where the private sector has been able to restore farmer confidence. Additional improvement could take place if the GOCI streamlines the structures that govern the sector and provides better seed varieties and more micro-credit. End summary.

TRADITIONAL STRUCTURE OF SECTOR

¶2. During the colonial period, officials introduced cotton in the north in an attempt to reduce economic disparities with the more developed south. Cotton remains concentrated in the region north of Bouake, where the climate is more amenable to the crop. The cotton growing season is from May through November; ginning activity peaks in November and December.

¶3. Since the early days of Ivoirian cotton production, the government has had significant involvement: CIDT, the state cotton company, provided farmers fertilizer (the most costly input), insecticide, herbicide, and seeds. After the harvest, CIDT bought cotton from the farmers, deducting the cost of the inputs it had provided. CIDT also made road improvements and carried out social projects in the cotton-growing region.

¶4. In 1998, at the recommendation of the World Bank, the GOCI sold many of CIDT's assets to private companies; CIDT kept only two gins. The GOCI assigned each company a zone in which it could operate and required each farmer to deal only with the company in his zone.

DECLINE OF THE SECTOR

¶5. Not long after it entered the market, one of the private companies, LCCI, began to experience financial difficulties. Eventually, it stopped providing inputs to farmers, who were still legally prohibited from selling their product to other firms. As its situation further deteriorated, LCCI could no longer afford to pay farmers. In 2006, LCCI filed for bankruptcy. But the firm's problems had a negative financial and psychological impact on many farmers and convinced them to stop growing cotton.

¶6. By the time of LCCI's failure, the Ivoirian cotton sector had already been in decline for almost 20 years, beginning with a decrease in demand associated with the worldwide recession of the early 1980s. The situation has worsened over the past ten years as a result of several factors. The world price of cotton from 1989 to 1998 averaged USD 1,642 per metric ton; but from 1999 to 2008, it averaged only USD 1,282 per metric ton (a decrease of 22 percent). Additionally, the depreciation of the U.S. dollar (the currency in which cotton sales are denominated) vis-a-vis the CFA (which is pegged to the euro) and increasing competition from China have had a negative impact.

¶7. The political/economic crisis that began in 2002 has hurt the cotton sector in much the same way it has affected other sectors concentrated in northern Cote d'Ivoire (reftel). As a result of violent conflict in the region, Filiature et Tissage de Gonfreville (FTG), a privately owned cotton spinning and weaving company located in Bouake, closed from September 2002 to February 2003, causing a loss of both domestic and international customers. The absence of customs enforcement, another result of the crisis, has allowed the entry of smuggled cotton goods and counterfeit textiles tariff-free. Additionally, because of the fragility of the political climate, companies in the cotton-growing region have found banks unwilling to lend them money. Transportation costs have increased as a result of inadequate road maintenance and numerous FN barricades on the highways.

CURRENT SIZE OF THE SECTOR

¶8. For the three growing seasons ending in 2001-2002, Cote d'Ivoire produced an average of 361,868 metric tons of cotton per year. For the following four growing seasons, ending in 2006-2007, the country produced on average 291,827 metric tons per year, a decline of 19 percent. For the 2006-2007 and 2007-2008 growing seasons, production averaged only 132,676 metric tons per year, a decrease of 63 percent from the 1999-2002 level. As of November 2009, USDA projected world cotton production of 102.74 million 480-pound bales, or 49.3 billion pounds, for the current season. Thus, Cote d'Ivoire's average annual cotton production over the past two seasons has averaged only about 0.6 percent of world production.

¶9. Today, approximately 150,000 farmers grow cotton in Cote d'Ivoire. Most farms are 3-4 hectares (roughly 5-7 acres), and most are worked by hand, without draft animals. Average national production last year was 859 kilos per hectare, which, somewhat surprisingly, is quite close to the USDA projection of U.S. production of 870 kilos per hectare for the current season. There are currently six cotton-ginning companies in Cote d'Ivoire: COIC, Ivoire Coton, Dopa, CIDT, Sicosa, and SECO (a subsidiary of OLAM, an Indian agricultural firm that purchased an LCCI gin in Ouangolodougou in 2008).

¶10. Although there is complete vertical integration in some firms, such as UNINORD (the parent company of Dopa and FTG), which buys cotton from farmers and ultimately sells shirts, sheets, and other cotton products in the retail market, Cote d'Ivoire exports approximately 90 percent of its ginned cotton--primarily to Europe and Asia--with no further transformation. Ivoirian firms export most of their finished textiles to other African countries and to Europe. It is unlikely that the Ivoirian cotton sector would benefit substantially from AGOA, were it to become eligible for the program in the future.

CURRENT STRUCTURE OF THE SECTOR

¶11. While the GOCI has altered the structure of the sector over time, the basic system remains entrenched: private cotton companies and scaled-down, state-owned CIDT provide inputs, including technical assistance, to farmers and buy cotton from them, deducting the cost of the inputs. The GOCI abolished the zone system in 2005, but farmers generally cannot afford to sell their cotton to gins located far from their farms. Most farmers belong to cooperatives, which gather cotton from the various farms to make transportation more efficient.

¶12. Each May the GOCI sets the price that gins must pay farmers based on international prices from the previous season's harvest. For the 2008-2009 season, the official GOCI price for top-grade cotton is CFA 185 (USD 0.42) per kilo (compared to approximately USD 1.32 per kilo for U.S. farmers). OLAM/SECO, reports that input costs are almost CFA 150 (USD 0.34) per kilo. Thus, Ivoirian farmers are clearing only about USD 0.08 per kilo.

¶13. The GOCI also dictates the price that gins charge farmers for fertilizers. Through the 2005-2006 season the GOCI provided a subsidy for fertilizer, allowing the ginners to pay the farmers more for their cotton. For the 2006-2007 and 2007-2008 seasons, in the absence of GOCI subsidies, the Islamic Development Bank provided fertilizer subsidies. Neither the GOCI nor the Islamic Development Bank has announced a fertilizer subsidy for this season.

¶14. While cotton is the primary cash crop of north-central Cote d'Ivoire, most cotton farmers grow equal proportions of cotton and corn. Additional crops grown by cotton farmers include rice, millet, sorghum, peanuts, and yams. Farmers use the ginner-provided inputs for these food crops as well. Thus, failure to provide inputs or to subsidize them has an effect on food supplies as well as cotton.

¶15. Like many other businesses operating in northern Cote d'Ivoire, cotton companies currently pay taxes to the GOCI as well as unofficial taxes to the FN (reftel). Ginners pay a levy to the Autorite de Regulation du Coton et de l'Anacarde (ARECA) and another levy to Audit Controle et Expertise (ACE), a state agency responsible for quality control and weighing cotton. Additionally, they pay a fee to the Comite de Suivie des Filieres Coton et Anacarde (CSCA), an

organization set up by the FN, and to an association of cotton companies, known as the Association Inter-professionelle de la Filiere Coton (Inter-coton).

FUTURE PROSPECTS

¶16. It is difficult to see how the Ivoirian cotton sector, with its extremely limited capital and government-dominated set-up, can remain competitive today. The low cost of labor is the saving grace of the sector. Cotton executives say the high degree of manual labor provides gins with much cleaner cotton than the cotton picked by machine, thus reducing ginning costs.

¶17. There are some encouraging signs for the sector. OLAM/SECO has made significant progress at its gin in Ouangolodougou. Of the 35,000 hectares of potential cotton farms near the OLAM/SECO gin, only 8,000 were in production in the 2007-2008 season. This season, 17,000 hectares are in production. OLAM/SECO ginned 5,500 tons of cotton last year and expects to gin substantially more this year. Gin managers believe restoration of farmers' confidence that the company will provide inputs and technical assistance combined with OLAM/SECO's guarantee of payment have had a highly positive effect in the region.

¶18. Streamlining the GOCI structures that are involved (as is under consideration in the cocoa sector) and eliminating FN levies would benefit the sector. Cotton experts say additional research to develop better seed varieties is another key to increasing output. Increasing the availability of oxen or other draft animals, and more veterinarians to care for them would further boost output. Micro-credit to allow farmers to purchase work animals, better quality plows, or even tractors would significantly help the sector as well.

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